

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: January 13, 2010
POSITION: Oppose
SPONSOR: California Nurses Association, California
Teachers Association

BILL NUMBER: SB 810
AUTHOR: M. Leno
RELATED BILLS: SB 840 (Kuehl, 2008); SB 1014 (Kuehl, 2008); SB 840 (Kuehl, 2006)

BILL SUMMARY: Single-Payer Health Care Coverage

This bill would create the California Healthcare System (CHS), a single payer health care system, administered by the independent California Healthcare Agency (CHA), to provide health care benefits to all California residents. This bill provides for a Commissioner to be appointed by July 1st of the fiscal year following passage of the bill, to administer the CHA and oversee the establishment of various boards and commissions including:

- California Healthcare Premium Commission, to become operative January 1, 2011, to determine costs and recommend a premium structure to the Legislature on or before January 1, 2013;
- Healthcare Policy Board, to set goals and priorities and determine scope of services provided;
- Office of Patient Advocacy, to represent health care consumers;
- Office of Health Planning, to plan for the state's short- and long-term health needs;
- Office of Health Care Quality, to support delivery of quality care;
- Public Advisory Committee, to advise Healthcare Policy Board;
- Office of Inspector General (OIG), within the Attorney General's (AG's) office, for oversight needs; and
- Payments Board, to administer the finances of CHS.

This bill would require the CHS and related boards and commissions to be operative within two years of the date that the Secretary of the California Health and Human Services Agency notifies the Legislature, as specified, that sufficient funding exists to implement the CHS. This bill would enact other related provisions relative to budgeting, regional entities, federal preemption, subrogation, collective bargaining agreements, compensation of health care providers, conflict of interest, patient grievances, independent medical review, and associated matters.

FISCAL SUMMARY

The CHS would be funded with current government health care funding for incorporated federal/county programs, a payroll tax to replace employer benefit plans, and other taxes to replace insurance premiums on individuals. The bill would establish the Healthcare Fund (HF) and its requirements would be implemented when the Secretary of the Health and Human Services Agency notifies the Legislature that the HF will have sufficient revenues to fund the CHS. This bill requires the CHS to maintain an actuarially sound reserve consistent with appropriate risk-based capital standards. This bill provides that when the Budget Act is not enacted by June 30 of any year after the system is operating and when all moneys in the reserve are used, a General Fund loan is required, as specified, to the HF to make payments to health care providers and others under contract with the CHS or to maintain the provision of services to the system.

The Department of Health Care Services indicates SB 810 has indeterminate, but significant costs. Recent cost estimates by the Legislative Analyst's Office (LAO) for a single payer health care system as proposed in SB 840 (Kuehl, 2008) are \$210 billion for 2011 growing to \$252 billion in 2015. It also produces annual

Analyst/Principal (0543) J. Wunderlich	Date	Program Budget Manager Lisa Ann L. Mangat	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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shortfalls of \$42 billion. The LAO further estimated that payroll taxes for employer and employees would need to be approximately 16 percent combined for the system to balance. Other indeterminate, but potentially significant cost drivers include the assumption that federal funds will be available and the potential for decreased fraud prevention controls.

The General Fund impact under a single payer system would include augmentations or loans obligations in both the short- and long-term to maintain the system due to cost overruns or unpredicted expenses. This could be significant and generate major General Fund pressure. An additional impact would be the lack of tax revenue from insurance companies.

SB 810 would also expand Medi-Cal, the state's Medicaid program, eligibility to 200% of FPL for all residents, including undocumented residents and non-parent adults. Increasing Medi-Cal eligibility would increase the number of eligibility determinations to be made, thereby increasing eligibility determination expenditures and health care expenditures. Medical services provided to undocumented residents, with the exception of emergency services, are funded 100% by the State General Fund. In addition, it is unknown whether Medi-Cal could receive a federal waiver for financial participation for the adult citizen expansion for those above 133 percent of FPL. As a result, program and administrative costs associated with providing services to these populations could require reimbursement through the state General Fund without any federal funds.

Medi-Cal is required to provide certain mandatory benefits to mandatory eligibles. Medi-Cal also provides optional Medicaid benefits. It is expected that SB 810 would need to provide those same benefits or at minimum the required benefits to receive Medicaid federal funding. As written, SB 810 is not clear as to whether it provides all required Medicaid benefits. Therefore, it is unknown how California would comply with the mandatory Medicaid benefits and if Medi-Cal could be available to provide a wrap-around benefit for those eligibles whose health care needs extend beyond the coverage of SB 810 and who qualify as a mandatory Medicaid beneficiary. Also, the cost of such a wrap-around Medi-Cal program would be indeterminate until the CHS is defined.

Potential cost savings under a single payer system includes a potential reduction in administrative overhead and the constraints on growth of future health care spending.

SUMMARY OF CHANGES

Amendments to this bill since our analysis of the April 23, 2009 version are minor and do not alter our position. The amended bill makes updates to implementation dates.

COMMENTS

The Department of Finance opposes this bill for the following reasons:

- The recent enactment of federal health care reform will significantly increase coverage for uninsured Californians by 2014. Implementing the historic health reform effort poses substantial challenges not only for California, but for the entire nation. It would be imprudent to mandate further efforts as proposed by this bill.
- The Governor vetoed SB 840 (Kuehl, 2008) and SB 840 (Kuehl, 2006), which contained similar language as this bill. In 2008, the message cited the LAO's cost estimate as a primary concern. In 2006, there was a main policy concern against implementing a government-run health care system.

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- The bill would establish a health care system requiring an extraordinary redirection of public and private funding, as well as creating a vast new bureaucracy during this time of necessary fiscal restraint and economic uncertainty.
- The bill would make sweeping changes to California's health care system without fully forecasting the practical and fiscal implications of the measure. The proposed savings from having a single payer system may not materialize and such dramatic changes likely would create unintended consequences.
- The bill would implement premiums upon individuals and employers of an unknown amount.

This bill would create a significant new state bureaucracy to administer the CHS that would absorb publicly funded and private health care programs and would have indeterminate state operation, local assistance, and federal fund impacts. However, offsetting state operations and local assistance costs may be realized by redirecting positions from state departments that were previously responsible for existing health coverage programs to the CHS and by redirecting local assistance funds to state operations from local programs that are now under the purview of the Health and Human Services Agency.

		SO	(Fiscal Impact by Fiscal Year)						
Code/Department	LA	(Dollars in Thousands)							
Agency or Revenue	CO	PROP							Fund
Type	RV	98	FC	2010-2011	FC	2011-2012	FC	2012-2013	Code
4260/Hlth Care	SO	No	-----	See Fiscal Summary	-----				0001
4260/Hlth Care	SO	No	-----	See Fiscal Summary	-----				0890
4260/Hlth Care	LA	No	-----	See Fiscal Summary	-----				0001
4260/Hlth Care	LA	No	-----	See Fiscal Summary	-----				0890
0820/Justice	SO	No	-----	See Fiscal Summary	-----				0001
<u>Fund Code</u>	<u>Title</u>								
0001	General Fund								
0890	Trust Fund, Federal								